

The Balance of Payments in 1963

THE outstanding development in our foreign transactions during 1963 was the sharp decline in the adverse balance from the first to the second half of the year. For the year as a whole, the improvement from the preceding year was considerably smaller. The changes are most evident in the balances on the "regular" types of transactions, including goods and services, Government grants and capital flows, movements of U.S. private capital and private foreign investments (other than changes in liquid assets) in the United States. After adjustment for seasonal variations, the balance on these transactions shifted from about \$2,300 million in the first half of 1963 to \$1,000 million in the second half (revised from the preliminary release). The total for the year was \$3,300 million, as compared with \$3,570 million in 1962, \$3,040 million in 1961, and between \$3,500 and \$4,200 million during the years 1958 to 1960 (table 1, line A13).

Special transactions

If "special" Government transactions are added to the regular types of transactions, the improvement in the balance from the first to the second half of 1963 is also evident, although the quarter-to-quarter changes are affected by the large changes that occurred in "special" transactions. If sales of nonmarketable medium-term Government securities which are convertible by the foreign holders into cash at short notice—first issued in 1963—are included with liquid liabilities, the seasonally adjusted balance changed from about \$2,170 million in the first half to about \$490 million in the second half of 1963 (table 1, line C1). If these securities are considered a medium-term capital inflow (although of the "special" type) the balance shifted from \$1,670 million to \$290

million (table 1, line C2). The annual balance under the first classification of these securities was \$2,660 million, and under the second, \$1,960 million. The balance on "regular" plus "special" types of transactions in 1962 was about \$2,190 million and in 1961 \$2,370 million.

In addition to the sale of nonmarketable medium-term securities, the special transactions include advances by foreign governments in excess of deliveries on military contracts, and repayments of foreign debts to the U.S. Government in advance of contractual schedules. Advances by foreign countries on military contracts exceeded deliveries during 1963 by \$360 million with most of the difference accruing in the second half of the year. Data on deliveries in that period are still preliminary however, mainly with respect to timing between the third and fourth quarters. For the year 1963 as a whole receipts from net advances were about \$110 million less than in 1962. (Table 1, line B2.)

Repayments on foreign loans in advance of contractual schedules were relatively large in the third quarter when France and the Netherlands made large payments. The figures in the other quarters represent mainly sales by the Export-Import Bank of foreign notes prior to their maturity. For the year 1963 as a whole nonscheduled receipts were \$325 million, compared with \$666 million in 1962. (Table 1, line B1 and table 5, line 41.)

Except for the sale of nonmarketable medium-term convertible securities, which amounted to \$702 million during 1963 (with \$502 million in the first half of the year and \$200 million in the second), net receipts from special transactions in 1963 were \$840 million, compared with about \$1,380 million in 1962.

While these receipts improved the balance as measured by changes in monetary reserves and liquid liabilities, the decline from 1962 to 1963 demonstrates the advisability of separating these transactions from the other or "regular" types in analyzing developments affecting the balance of payments.

Changes in reserves

A major change in 1963 affecting our international financial position stemmed from the fact that foreign countries kept much more of their net receipts from transactions with the United States in liquid dollar assets. Accordingly, U.S. reserve assets, including the gold tranches in the IMF (which measures our nearly automatic drawing right) declined substantially less than in 1962. The total decline in reserve assets during 1963 was \$378 million, compared with \$1,533 million in 1962, and going back 4 years, between a low of \$600 million in 1961 and a high of \$2,275 million in 1958. The decline during 1963 in gold holdings alone was \$461 million, by far the smallest amount since 1957.

The reduction in foreign purchases of U.S. gold can in part be attributed to strengthened cooperation between the monetary authorities of the principal countries involved in international financial transactions. This cooperation since 1961 has gradually become more effective in dampening the impact of various adverse political and economic developments on international gold and capital markets. Larger sales of gold in 1963 by the Soviet Union to finance increased purchases of foodstuffs by the Soviet bloc countries were another factor reducing foreign demand for U.S. gold. The total amount of gold added to foreign reserves from sources outside

the United States, which include Soviet sales as well as new gold production less private purchases in the free world is estimated to have been about \$930 million in 1963, as compared with less than \$400 million in 1962 and \$740 million in 1961. (See table 5, Memorandum item III.)

The rise in foreign holdings of liquid dollar assets in 1963 was about \$1,580 million. In addition to this foreign central banks purchased the \$700 million of nonmarketable, medium-term convertible U.S. Government securities. In 1962 the total rise in foreign holdings of liquid dollar assets was about \$650 million. The rise in 1963 is believed to have been accentuated by the accumulations of dollar proceeds from gold sales by Soviet bloc authorities in private foreign banks, in anticipation of dollar payments for increased imports of foodstuffs.

An important development in 1963 was the substantial gains in gold and dollar holdings of several of the less developed countries. As a group these countries accounted for more than \$1 billion of the total foreign gain in liquid dollar assets and gold purchases from the United States, while the developed countries accounted for about \$1.6 billion (including the \$700 million of nonmarketable medium-term convertible securities). In 1962, the less developed countries as a group had only a minor increase in reserves.

Among these countries, major increases in dollar and gold holdings were registered by Argentina, Mexico, Venezuela, and Spain.

Major changes in foreign transactions

The major changes in the "regular" types of international transactions are shown in the following tabulation.

Among the changes from 1962 to 1963 the following appear most significant:

(1) The \$1.4 billion rise in merchandise exports considerably exceeded the \$800 million rise in imports. About \$400 million of the rise in exports and, therefore, in the trade balance was directly financed by Government grants and capital outflows, and in this period at least did not contribute to dollar receipts from abroad. (To the extent

Major Changes in International Transactions Seasonally Adjusted

(Billions of dollars)

(+ indicates changes resulting in an improvement of the balance of payments)

	1961-62	1962-63	First to second half 1963	Third to fourth quarter 1963
Merchandise exports.....	+566	+1,322	+804	+280
Merchandise imports.....	-1,019	-917	-670	+18
Balance.....	-1,062	+405	+234	+298
Income on investments:				
Receipts.....	+478	+243	+15	+54
Payments.....	-113	-201	-60	-13
Balance.....	+365	+44	-45	+41
Military expenditures and sales (net).....	+164	+120	-70	+79
Travel (net).....	-137	-146	-22	+1
Government grants and capital outflows.....	-225	-381	+284	-194
Of which direct dollar outflows.....	(+46)	(+188)	(+134)	(-12)
Domestic and foreign private capital excluding foreign holdings of liquid dollar assets.....	+380	-872	+1,166	-300
Unrecorded transactions.....	-120	+630	-407	+201
Total transactions listed above.....	-446	+320	+1,125	+10
Other transactions.....	+114	-67	+109	-61
Changes in balance on "regular" transactions.....	-330	+252	+1,234	-51

that exports are financed by dollar loans, principal and interest will be received in subsequent periods, while some of the loan repayments received in the current period may be considered payments for exports in earlier periods.)

(2) A reduction was achieved in military expenditures.

(3) Net income on foreign investment increased as it did in most of the postwar years, but only by \$40 million as compared with \$365 million in 1962 and \$680 million in 1961.

(4) Net outflows of private capital rose by about \$570 million. A part of that rise may have been associated, however, with the rise in exports, although data to measure the relationship between exports and private capital flows are not available.

(5) Government grants and capital outflows rose by \$250 million, but goods and services supplied under these programs from the United States and other expenditures in the United States rose by about \$440 million so that direct dollar outflows were about \$190 million less than in 1962.

(6) The balance on unrecorded transactions (and errors in the estimates)

continued to be on the debit side during the year as a whole, but it was about \$530 million less than in 1962. The decline may be due, in part, to better coverage in 1963 of the figures on capital flows and in part to a decline in capital movements, both long- and short-term, which usually fail to be recorded. It would be incorrect, however, to assume that errors and omissions are limited to the data on capital flows.

The major factor in the improvement of the balance from the first to the second half of 1963 was the decline in capital outflows. The changes from the third to the fourth quarter were largely offsetting. The rise in net credits on goods and services was offset by a rise in net debits on private capital outflows, Government grants and capital movements, while net debits on unrecorded transactions declined.

Merchandise trade

The rise in U.S. exports of agricultural goods from 1962 to 1963 accounted for about \$560 million of the \$1.4 billion increase in merchandise exports (excluding goods sold and transferred under military programs). Starting in the second quarter and accelerating later in the year, it comprised about \$220 million, or one-fourth of the increase in total exports from the first to the second half of 1963, and for about \$175 million, or nearly two-thirds, of the rise from the third to the fourth quarter. Wheat and other grains accounted for about \$235 million of the \$560 million rise over the previous year in all agricultural products. All of that increase occurred in the second half of the year.

Adverse weather conditions leading to short crops in large parts of Europe and Asia contributed to the increase in foreign imports. A part of these imports were obtained from the United States. When these imports were obtained from other countries, such as Canada, Australia, and Argentina, their higher earnings enabled them to increase their imports, some of which have already or may in the future come from the United States.

Weather conditions abroad provide

Table 1.—Analysis of U.S. Balance of Payments, Seasonally Adjusted, Excluding Military Grant Aid

(Millions of dollars)

	Calendar year		1962				1963			
	1962	1963	I	II	III	IV	I*	II*	III*	IV*
Transactions other than changes in official monetary assets and in liquid liabilities (including non-marketable, medium-term convertible Government securities)										
I. U.S. PAYMENTS (DEBITS) RECORDED	33,254	35,314	8,244	8,316	8,374	8,478	8,463	9,753	8,373	8,935
1. Imports of goods and services	24,064	26,118	6,115	6,222	6,282	6,341	6,270	6,453	6,604	6,791
2. Merchandise	16,146	16,062	3,042	3,042	3,127	3,046	3,014	3,182	3,362	3,574
3. Military expenditures	8,028	2,880	754	748	732	794	748	725	718	869
4. Other services	6,701	6,276	1,423	1,444	1,431	1,501	1,508	1,540	1,504	1,628
5. Remittances and pensions	730	812	101	182	170	187	211	211	105	195
6. Government grants and capital outflows	4,381	4,582	1,075	1,078	1,045	1,083	1,063	1,306	1,060	1,114
7. (Transactions involving no direct dollar outflows from the United States)	3,211	3,690	890	830	804	771	818	1,089	830	851
8. (Dollar payments to foreign countries and international institutions)	1,070	892	285	248	241	312	241	207	181	263
9. U.S. private capital	3,273	4,062	851	834	771	887	929	1,734	474	945
10. Direct investments	1,767	1,798	199	300	300	453	501	488	299	691
11. Long-term portfolio	1,200	1,041	307	239	188	333	428	820	204	216
12. Short-term	807	642	305	—1	104	30	—94	825	—70	129
II. U.S. RECEIPTS (CREDITS) RECORDED	32,093	33,378	7,686	7,391	6,327	5,117	7,718	8,344	8,534	8,785
1. Exports of goods and services	25,780	31,003	7,208	7,818	7,650	7,434	7,462	7,008	7,021	8,327
2. Merchandise	20,470	21,002	6,022	5,282	5,270	4,923	6,010	6,404	6,139	5,830
3. (Financed by Government grants and capital)	3,845	2,753	555	474	555	491	500	837	541	475
4. Military sales	600	632	113	100	141	181	181	263	82	150
5. Income on investments, private	2,830	3,007	904	940	940	1,000	1,030	969	103	1,918
6. Income on investments, Government	472	498	100	144	105	114	122	124	135	120
7. Other services	4,239	4,594	1,058	1,074	1,056	1,108	1,070	1,113	1,162	1,104
8. Repayments on U.S. Government loans, scheduled	617	649	155	184	130	148	151	158	178	164
9. Repayments and sales, non-scheduled	408	226	—	53	471	142	28	34	241	25
10. Foreign private capital other than liquid funds	155	393	173	15	3	—35	—27	265	138	17
11. Government liabilities	805	416	163	38	175	468	114	—14	—58	263
SELECTED BALANCES (NET CREDITS +, DEBITS -)										
A. Regular types of transactions, seasonally adjusted:										
1. Merchandise trade, excluding military	4,324	4,040	1,060	1,232	1,143	879	900	1,313	1,167	1,465
2. Military sales and expenditures	-2,368	-2,248	-641	-548	-601	-678	-507	-623	-110	-543
3. Income on investments	3,357	3,360	723	830	800	900	904	810	800	900
4. Other services	-407	-570	-125	-125	-90	-137	-151	-146	-133	-146
5. Goods and services	4,956	5,465	1,067	1,389	1,249	1,083	1,182	1,450	1,227	1,630
6. (Excluding exports of goods and services financed by Government grants and capital outflows)	1,063	2,140	349	689	550	350	447	437	404	301
7. Remittances and pensions	-730	-812	-101	-182	-170	-187	-211	-211	-105	-195
8. Government grants and capital outflows, less income in associated liabilities, less scheduled loan repayments	-3,547	-3,789	-907	-830	-840	-910	-871	-1,200	-790	-832
9. Direct and long-term portfolio	-2,405	-3,053	-361	-760	-537	-808	-1,022	-803	-391	-735
10. Short-term	-423	-637	-328	-80	-161	-94	—	-603	53	-103
11. Miscellaneous Government non-liquid liabilities	-3	(-)	(-)	-3	1	-1	(-)	1	2	-2
12. Errors and unrecorded transactions	-1,020	-680	-37	-37	-400	-492	-135	+121	-394	-95
13. Balance on regular types of transactions (seasonally adjusted)	-3,073	-3,301	-725	-543	-531	-1,489	-291	-1,307	-476	-627
14. Less: Net seasonal adjustments	—	—	-113	-129	+387	-85	-181	-94	+304	-80
15. Balance on regular types of transactions before adjustment	-3,573	-3,301	-838	-672	-1,217	-1,314	-530	-1,313	-580	-547
B. Special Government transactions (not seasonally adjusted):										
1. Non-scheduled receipts on Government loans	000	326	—	58	471	142	25	34	241	35
2. Advances on military exports	470	380	142	—2	107	223	20	—6	+105	230
3. Sales of non-marketable, medium-term, non-convertible securities	—	—	—	—	—	—	—	—	—	—
4. Dollar securities	—	31	—	—	—	—	58	110	-43	-1
5. Foreign currency securities	251	-74	—	—	—	251	5	-30	-30	—
6. Sales of non-marketable, medium-term, convertible securities	—	—	—	—	—	—	—	—	—	—
7. Dollar securities	—	180	—	—	—	—	125	—	25	—
8. Foreign currency securities	—	552	—	—	—	—	225	162	180	38
C. 1. Balance A+B excluding net receipts from sales of non-marketable, medium-term, convertible Government securities (including seasonal adjustment of items in A)	-2,106	-2,009	-555	-482	-356	-788	-883	-1,288	-225	-281
2. Excluding seasonal adjustment (equals line 15, table 5)	-2,106	-2,009	-472	-323	-083	-806	-702	-1,104	-489	-173

See footnotes at end of table.

only a partial explanation of the rise in agricultural exports, including some of the increase in grain shipments. The expansion in cotton sales particularly in the fourth quarter of the year (which more than compensated for a decline during the first half of 1963) was due to changes in Government sales procedures which make it easier for U.S. exporters to compete in international markets. Increased sales of tobacco reflect largely a recovery from the preceding year, when sales were temporarily reduced. While sales of these products may not continue to rise as fast as they did in the latter part of 1963, the new level does not appear to be too high relative to the longer run export trend which may be anticipated.

Agricultural exports also reflect the rising standard of living abroad, particularly in the other industrialized countries. A major part of the export rise to these countries was in dairy products, vegetable oils and oilseeds, and various animal feeds.

About \$150 million of the 1962-63 rise in agricultural exports (from about \$1,250 million to about \$1,400 million) was financed by Government grants and capital. Such exports were relatively large in the first half of 1963 but fell off in the second half. During that period the rise in dollar sales was, therefore, even larger than in total agricultural exports.

Dollar sales of agricultural products in 1963 which were due to temporary conditions may be estimated roughly at about \$100-\$150 million. Most of these shipments occurred in the last quarter of the year.

About \$150 million of the 1962-63 export rise resulted from higher shipments of fuels, mostly coal. The rise in coal exports was accentuated by weather conditions and interruptions in coal production in Europe last spring, but is also due to a reduction in import restrictions as European requirements rose relative to production and inventories rapidly declined. U.S. coal is competitive in European markets provided low cost transportation facilities are available. To a large extent U.S. coal is used there in steel production. Coal exports did not continue to rise after the middle of 1963, but the gains achieved by that time were maintained.

Table 1.—Analysis of U.S. Balance of Payments, Seasonally Adjusted, Excluding Military Grant Aid—Continued

(Millions of dollars)

	Calendar year		1962				1963			
	1962	1963	I	II	III	IV	I*	II*	III*	IV*
2. Balance A+B including net receipts from sales of non-marketable, medium-term, convertible Government securities (including seasonal adjustment of items in A)	-2,186	-1,959	-585	-462	-356	-733	-543	-1,136	-99	-239
2a. Excluding seasonal adjustment (equals line 2B, table B)	-2,186	-1,956	-472	-320	-936	-608	-352	-1,042	-414	-130
D. Increase in short-term official and banking liabilities and in foreign holdings of marketable U.S. Government bonds and notes (decrease -)	653	1,560	40	164	-166	302	320	916	167	135
1. Foreign private holders including banks and international and regional organizations (excluding IMF)	300	603	600	24	-456	-65	364	142	38	29
2. Foreign official holders	353	957	-663	162	270	367	-74	773	140	130
E. Decrease in U.S. monetary reserve assets (increase -)	1,433	378	420	-163	681	380	23	124	327	-5
1. IMF position	620	30	237	44	331	14	-46	32	13	13
2. Convertible currencies	17	-113	-114	-324	164	351	-32	4	-24	-14
3. Gold	896	461	346	117	440	24	111	116	190	39

* Revised. † Preliminary. ‡ Less than \$500,000.

§ Certificates sold abroad by Export-Import Bank.

achieved, reflecting increases in the receipts of these countries from higher imports and investments by the United States and other industrialized countries. Shipments to the other countries in Asia, particularly India and Pakistan reflected higher Government aid, as well as higher returns on their exports.

In contrast to the rising exports to other parts of the world, business with Latin America stagnated through most of the year but some acceleration occurred in the last quarter. The major increase at that time was to Venezuela but there was also a rise in sales to some of the mineral exporting countries, and—with the major exception of Brazil—to some of the coffee exporters. The recent strengthening in prices for their exports should provide a basis for a further expansion in their imports from the United States.

Merchandise imports

Although imports did not rise in the last quarter of 1963 the increase for the year as a whole was just over 5 percent, not much less than the 5.4 percent rise in GNP. In past periods of expanding business activity imports frequently have risen somewhat more than domestic output.

The largest relative rise in imports was in manufactured consumer goods, including automobiles. For the year as

a whole it amounted to 11.5 percent, more than twice the rate of increase in all imports, and more than double the rate of rise in total consumer expenditures on goods other than food, gasoline and oil. Imports of capital equipment also moved up faster than total imports. These two groups of manufactured goods comprise more than 40 percent of the total import rise.

A sharp rise occurred also in steel imports, which advanced by about \$150 million or 28 percent. Imports of other industrial materials and fuels rose only by 1.7 percent or less than one-third the rate at which domestic business activity expanded.

Imports of foodstuffs, which are much less sensitive to fluctuations in domestic production and incomes, expanded mainly because of rising prices, particularly for sugar. World coffee quotations started to rise about mid-September 1963, but through the end of the year had relatively little effect on import values. The price rise accelerated sharply, however, during the first 2 months of 1964. Imports of cattle, meat products and fish, which totaled close to \$1 billion, were only slightly higher than in 1962 and the upward trend in previous years was almost stopped.

Among the countries which benefited most from the rise in imports were

Exports of nonagricultural materials and of finished manufactures, with the exception of commercial aircraft and "special category" goods (largely military and electronic equipment), rose in response to the acceleration in business activity in the other industrialized countries, although domestic demand, which competes with foreign demand for our industrial output, also increased. Exports to Western Europe and Japan appear to have increased somewhat more than one would expect on the basis of past relationships. In the case of Europe, the additional exports appear to have been—in part at least—consumer goods. Such exports rose over 1962 by about \$60 million, as compared with the previous year's rise of \$10 million. Nevertheless, they continued to comprise only a rather small percentage of total exports to that area, and remained a rather insignificant part of the rapidly rising consumer demand abroad.

The major part of the rise in exports to Western Europe, most of which was presumably associated with the rise in production in that area, was in various industrial materials, and in machinery.

Exports to Japan also expanded earlier and initially faster than may have been expected on the basis of past relationships, but this relative advance narrowed again toward the end of 1963 as production in Japan accelerated.

Directly and indirectly the major turns in export to Japan also appear to be influenced by major changes in Japanese reserves. Downturns in reserves have in the past resulted in restrictions on imports and slowdowns in output, while growing reserves have facilitated relaxations of import restrictions and accelerations in economic activity.

A major factor in the export rise, particularly in the second half of the year, were expanding purchases by Canada. This increase may reflect the effects of the elimination of special import restrictions imposed during the Canadian exchange crisis in the middle of 1962 as well as the rise in Canadian business activity, and the increased incomes derived from the rise in sales of agricultural products.

Substantial increases in exports to Australia and South Africa were also

Japan and Hong Kong (with U.S. imports rising by more than 10 percent), Canada (6 percent), and Australia, and New Zealand (14 percent). The increase from Europe was only about 4 percent, and from Latin America not much over 2 percent, and most of that was in imports from Argentina.

Table 2.—U.S. Balance of Payments by Major Components,¹ Seasonally Adjusted
(Millions of dollars)

	Calendar year		1962				1963			
	1962	1963	I	II	III	IV	I	II	III	IV
Goods and Services, Government Assistance and Long-Term Capital Accounts²										
A. 1. Nonmilitary merchandise exports.....	20,470	21,002	5,022	6,282	5,270	5,926	5,010	5,484	5,538	5,830
2. Less those financed by Government grants and capital.....	2,346	2,733	504	574	588	582	640	827	641	678
3. Merchandise exports, other than those financed by Government grants and capital.....	18,124	18,269	4,518	5,708	4,682	5,344	4,370	4,657	4,897	5,152
4. Nonmilitary merchandise imports.....	-10,143	-10,902	-3,042	-1,639	-1,127	-1,046	-1,014	-1,182	-1,302	-1,374
5. Balance on trade excluding exports financed by Government grants and capital.....	1,981	2,207	485	655	658	328	494	475	526	780
6. Nonmilitary service exports.....	8,051	9,000	2,031	2,158	2,170	2,383	2,201	2,206	2,270	2,332
7. Less those financed by Government grants and capital.....	538	608	144	125	133	136	145	186	122	150
8. Service exports other than those financed by Government grants and capital.....	8,113	8,400	1,127	2,033	2,036	2,147	2,115	2,020	2,148	2,182
9. Nonmilitary service imports.....	-5,701	-6,270	-1,423	-1,444	-1,423	-1,501	-1,508	-1,540	-1,584	-1,628
10. Balance on services other than those rendered under Government grants and capital.....	2,322	2,130	504	689	613	646	607	474	564	554
11. Balance.....	-1,311	-4,397	949	1,247	1,142	944	1,034	959	1,860	1,344
B. Other major transactions:										
1. Military expenditures.....	-3,038	-2,890	-734	-748	-739	-784	-748	-725	-708	-690
2. Military cash receipts.....	1,143	980	234	180	255	445	204	102	7	391
3. Government grants and capital—dollar payments to foreign countries and international institutions.....	-1,070	-832	-269	-243	-241	-312	-241	-207	-181	-123
4. Repayments on U.S. Government loans, excluding fundings by new loans.....	1,182	708	128	211	378	295	127	163	403	115
5. U.S. direct and long-term portfolio investments abroad.....	-2,706	-3,410	-650	-339	-517	-828	-1,019	-1,106	-308	-816
6. Foreign direct and long-term portfolio investments in the United States.....	271	387	104	00	-10	20	-0	203	112	81
7. Remittances and pensions.....	-730	-812	-141	-182	-170	-187	-211	-211	-197	-195
8. Changes in Government liabilities ³	248	-49	(0)	-3	1	260	(0)	-9	-13	-4
9. Balance.....	-4,745	-5,892	-1,193	-1,470	-872	-1,141	-1,229	-1,772	-673	-1,320
C. Balance on Goods and Services, Government Assistance and Long-Term Capital Accounts.....	-445	-7,485	-201	-302	269	-287	-810	-810	163	21
D. Recorded U.S. private short-term capital outflow less foreign short-term credits to the United States (excluding foreign liquid dollar holdings).....	-710	-670	-351	-112	-145	-64	60	-306	33	-193
E. Unrecorded transactions.....	-1,028	-485	-27	-27	-480	-402	-135	121	-308	-95
F. Sales of nonmarketable, medium-term, convertible Government securities.....	707	707	0	0	0	0	358	152	176	26
G. Balance C+D+E.....	-2,180	-2,000	-685	-452	-368	-703	-883	-1,288	-228	-264
H. Balance C+D+E+F.....	-2,186	-1,688	-686	-452	-368	-703	-835	-1,136	-80	-238
Memorandum (Items Reconciliation with table 1 of Government grants and capital outflow):										
1. Government grants and capital outflow, total.....	4,281	4,332	1,075	1,078	1,045	1,000	1,076	1,355	1,010	1,114
2. Less: Expenditures on merchandise in the United States.....	2,345	2,733	504	574	585	501	606	827	641	676
3. Expenditures on services in the United States.....	538	603	144	125	133	136	146	186	122	150
4. Refunding of Government loans.....	71	105	20	10	18	12	43	33	10	74
5. Government loans to repay private loans.....	03	33	20	02	5	0	0	33	10	74
6. Military credits.....	17	22	3	0	-2	7	3	10	7	5
7. Increase in Government liabilities associated with Government grants and capital.....	147	04	13	44	60	20	31	-1	40	18
8. Equals: Dollar payments to foreign countries and international institutions under Government grants and capital (excluding changes in restricted accounts).....	1,070	882	200	248	241	312	241	287	181	183

1. Excludes military transfers under grants. (a) Less than \$500,000. * Revised. * Preliminary.
2. Short-term capital movements between parent companies and their foreign affiliates are reported as part of direct investment.
3. Excludes liabilities associated with military transactions, with Government assistance operations, and with sales of nonmarketable, medium-term, convertible Government securities.

Military and services transactions

A major improvement of the balance of payments was achieved through a reduction by about \$150 million in defense expenditures abroad. Nearly half of that decline was due to lower payments for fissionable materials, as the backlog on deliveries, contracted for in earlier years, gradually declined. The reduction in other expenditures is also significant, however, because it was achieved in spite of rapidly rising costs abroad, particularly for services, and increased salaries for U.S. personnel during the latter part of the year.

Deliveries on foreign orders for military equipment, according to preliminary figures, did not rise, however, although the backlog of orders continued to expand. In the second half of 1963 advance payments by foreign countries for military equipment exceeded deliveries by about \$360 million. As these receipts change considerably from one quarter to the next, and the build-up of such liabilities cannot be expected to continue at the current rate, they are entered in the analysis table (table 1, line B2) as special transaction. In table 2, however, instead of deliveries and changes in liabilities cash receipts are shown (line B2). Total cash receipts in 1963 were about \$150 million less than in 1962, and approximately offset the decline in cash expenditures.

Travel expenditures continued to rise during the year. Receipts from abroad increased only by \$20 million. The major reason that this rise was not larger was the decline in Canadian travel in the United States following the devaluation of the Canadian dollar in May 1962. Receipts from other countries increased by about \$80 million or about one-sixth.

Income on investments

The balance on investment income, as was pointed out earlier, increased from 1962 to 1963 only by about \$40 million, the smallest amount since 1959. The decline in net receipts was the result of a slowdown in the rise in income on direct investments to hardly more than \$100 million for the year as a whole.

(and an actual decline during the latter part of the year) and a substantial acceleration in income payments.

It is still true that the outflow of U.S. capital is mostly for long-term investments, which yield more than we pay on the inflow of foreign funds, a large part of which are held in liquid assets. However, the rise in domestic interest rates on time deposits and Government securities has affected not only the new foreign funds flowing in subsequent to that rise, but also, rather promptly, payments on all such foreign assets held here. This rise was the major reason for the increase in payments of income on foreign investments.

Receipts from all private U.S. investments abroad advanced further to a new high of \$4.1 billion in 1963, but the rate of growth was lower than in the past few years and receipts in the fourth quarter of 1963, according to preliminary data, were slightly less than in the corresponding quarter of the previous year.

Income received from direct foreign investments accounted for about three-quarters of the total. Partial data now available indicate that branch profits in 1963, derived mainly from the petroleum and mining industries, were growing at a steady rate, but that dividend distributions from manufacturing and other affiliates did not increase in 1963 and may have diminished. The failure of dividends from these subsidiaries to rise may suggest that a larger part of their earnings was reinvested abroad. Data to confirm this are not yet available, however.

The quarter-to-quarter changes in income on direct investments are frequently the result of the timing of dividends by a few large subsidiaries in continental Europe. If these were smoothed out, the drop in the fourth quarter of 1963 from the fourth quarter of 1962 would be eliminated, but for the year as a whole there would still be a gain of only about 3 percent in total direct investment receipts, compared to about 10 percent in 1962.

Income from U.S. holdings of foreign securities and from short- and medium-term loans increased by about \$100 million in 1963, about the same as in 1962. This gain is based largely on

Table 3.—Short-Term Private Capital, 1962 and 1963, by Country and Type
(Millions of dollars)

	Changes (decreases -)										Amount outstanding and at December 1963
	Calendar year		1962				1963				
	1962	1963	I	II	III	IV	I	II	III	IV	
Total short-term capital outflow (line 37, p. 26).....	507	na	220	-32	73	206	-81	621	-127	na	na
Total reported by U.S. banks.....	277	700	175	-39	-98	236	-78	298	-107	487	5,817
Major financial centers, total.....	-31	61	-48	-143	16	144	-47	207	-173	78	1,253
United Kingdom.....	44	8	-22	-8	12	62	-24	-6	9	32	230
EEC and Switzerland.....	10	-20	-20	-25	-3	70	-42	100	-24	-9	418
Canada.....	-94	70	3	-107	7	3	10	107	-100	53	607
By type:											
Commercial and financial claims payable in dollars.....	37	61	51	-157	31	92	-28	102	-81	48	907
Foreign currency deposits and claims.....	-68	20	-10	-6	-15	52	-10	105	-64	26	440
Other countries, total.....	358	639	219	44	-106	151	-31	501	68	411	4,561
Japan.....	205	300	251	-28	-47	31	11	117	-7	275	2,137
Latin American Republics.....	81	05	-1	28	-50	104	-72	38	89	40	1,580
Other.....	22	148	-31	30	-9	26	20	30	-14	96	841
By type:											
Commercial and financial claims payable in dollars.....	302	624	233	37	-111	140	-37	191	00	404	4,475
Foreign currency deposits and claims.....	8	15	-11	7	5	6	0	(x)	2	7	99
Total reported by nonfinancial concerns.....	244	-70	355	44	103	-96	17	121	-20	-188	2,087
Major financial centers, total.....	174	-139	127	17	145	-115	-10	67	-10	-210	1,229
United Kingdom.....	17	-25	-4	-28	37	-18	-16	5	22	-8	214
EEC and Switzerland.....	10	12	51	25	-23	6	(x)	2	-1	3	341
Canada.....	98	-150	80	70	101	-102	30	87	-32	-218	609
Claims payable in dollars.....	106	na	112	25	63	-05	20	133	-41	na	na
Foreign currency deposits and claims.....	60	na	10	-8	82	-20	-30	-36	31	na	na
Other countries, total.....	92	69	28	27	18	19	27	24	-10	28	358
Claims payable in dollars.....	70	na	31	3	21	28	27	5	-11	na	na
Foreign currency deposits and claims.....	13	na	4	24	-6	-9	(x)	10	1	na	na
Brokerage balances, total.....	-36	na	-	-37	-	1	-	12	-	10	na

* Revised.

* Preliminary.

na Not available. (x) Less than \$100,000.

* Excludes Exchange Stabilization Fund holdings.

* Changes adjusted for variations in coverage and therefore do not necessarily correspond to changes computed from reported amounts outstanding.

* Fourth quarter 1963 estimated on the basis of partial preliminary reports; amount outstanding at the end of 1963 estimated on the basis of figures for the end of September 1963 plus the preliminary data on movements during the last quarter of 1963.

Table 4.—Changes in Short-Term Official Banking Liabilities and in Foreign Holdings of Marketable U.S. Government Bonds and Notes
(Millions of dollars)

	Calendar year		1962				1963			
	1962	1963	I	II	III	IV	I	II	III	IV
Total (decrease -) (line 58, p. 26).....	653	1,586	40	488	-185	386	230	918	187	265
By foreign holder:										
Foreign central banks and governments, total.....	-153	977	-053	-102	270	374	-74	776	140	120
As reported by U.S. banks.....	1,051	511	-472	737	412	377	-178	545	10	75
Other.....	-601	466	-181	-275	-142	-3	194	181	130	51
Foreign commercial banks.....	-147	434	147	-245	-214	-137	384	75	-36	11
International and regional institutions (excluding IMF).....	213	-285	213	-2	-107	100	-64	-48	-10	-81
Other foreigners and undetermined.....	124	304	44	260	-137	-42	74	113	03	112
By type of liabilities:										
Deposits in U.S. banks.....	-40	1,127	145	73	-638	361	423	461	50	107
U.S. Government obligations: Bills and certificates payable in dollars.....	1,810	-612	342	680	787	181	-422	212	-133	-270
Bonds and notes (marketable).....	-723	671	-283	-214	-102	-30	128	240	215	88
Nonmarketable certificates payable in foreign currencies.....	2	-10	20	-	75	-102	-	-33	-25	30
Other.....	-462	-	-115	-118	-115	-117	-	-	-	-
Bankers' acceptances, commercial paper, time deposit certificates and other liabilities.....	150	431	23	06	-87	74	101	83	87	121
Other banking liabilities payable in foreign currencies.....	-9	11	5	-7	2	-9	(x)	6	7	-9

* Revised.

* Preliminary.

(x) Less than \$100,000.

Table 5.—United States Balance of Payments by Area—
(Millions)

Line	Type of transaction	All areas								Western Europe						Eastern Europe					
		1962				1963				1962			1963			1962			1963		
		Year	III	IV	Year	I	II	III	IV	Year	III	IV	Year	III	IV	Year	III	IV	Year	III	IV
1	Exports of goods and services	21,329	7,322	8,181	na	7,505	8,777	7,689	na	10,732	2,476	3,668	na	2,517	na	162	30	25	221	40	69
2	Goods and services transferred under military grants, not	1,630	218	806	na	437	8,076	2,215	na	na	na	na	na	na	na	na	na	na	na	na	na
3	Goods and services excluding transfers under military grants	23,790	7,184	7,689	31,608	7,284	8,182	7,465	8,832	10,166	2,568	2,744	10,676	3,403	2,974	162	30	25	221	40	69
4	Merchandise, adjusted, excluding military	20,470	4,368	5,140	21,002	4,043	5,676	5,182	5,008	7,108	1,683	1,794	7,508	1,730	2,142	131	33	13	171	27	55
5	Transportation	1,740	446	441	1,848	410	488	496	474	871	224	316	804	220	213	14	4	4	19	3	10
6	Travel	821	230	188	841	187	263	289	200	101	31	24	114	33	20	(*)	(*)	(*)	(*)	(*)	(*)
7	Miscellaneous services:																				
8	Private	1,478	370	303	1,511	372	373	373	303	572	139	151	603	143	152	8	2	2	11	3	3
9	Government, excluding military	184	40	40	204	40	51	60	64	58	15	14	50	14	14	(*)	(*)	(*)	(*)	(*)	(*)
10	Military transactions	860	127	200	632	104	241	75	140	638	04	190	517	57	117	(*)	(*)	(*)	(*)	(*)	(*)
11	Income on investments:																				
12	Direct investments	2,050	616	1,589	3,168	778	806	659	1,020	820	109	217	538	191	151	(*)	(*)	(*)	(*)	(*)	(*)
13	Other private	800	201	213	900	210	220	227	183	183	48	49	260	53	58	(*)	(*)	(*)	(*)	(*)	(*)
14	Government	472	91	189	400	50	106	106	192	213	30	100	177	32	101	9	1	1	30	7	1
15	Imports of goods and services	21,364	8,368	6,812	26,116	5,919	6,583	6,955	6,891	8,830	2,229	2,236	9,111	2,487	2,330	95	28	29	89	32	21
16	Merchandise, adjusted, excluding military	10,148	3,000	4,191	10,062	3,915	4,223	4,365	4,511	4,537	1,073	1,203	4,717	1,108	1,317	79	21	17	81	23	19
17	Transportation	2,065	543	477	2,134	468	545	568	605	1,129	376	243	2,250	349	300	4	1	1	3	(*)	1
18	Travel	1,905	337	278	2,071	458	538	586	416	615	247	109	680	276	116	7	5	(*)	8	(*)	7
19	Miscellaneous services:																				
20	Private	458	114	108	424	103	107	114	110	284	63	63	200	66	66	(*)	(*)	(*)	(*)	(*)	(*)
21	Government, excluding military	400	143	08	421	91	84	160	96	58	23	25	106	30	27	4	1	1	6	2	1
22	Military expenditures	3,028	732	704	2,890	748	726	729	640	1,000	308	433	1,493	361	303	1	(*)	1	1	(*)	(*)
23	Income on investments:																				
24	Private	660	161	180	700	189	189	183	237	400	01	117	465	102	147	(*)	(*)	(*)	(*)	(*)	(*)
25	Government	320	30	89	400	91	83	104	110	191	48	49	221	68	62	(*)	(*)	(*)	(*)	(*)	(*)
26	Balance on goods and services	4,368	634	1,573	na	1,732	2,234	718	na	1,803	217	622	na	138	na	07	2	4	112	3	48
27	Excluding transfers under military grants	4,325	636	1,568	5,488	1,288	1,519	630	2,143	1,339	129	508	1,495	-4	578	87	2	5	112	8	46
28	Unilateral transfers, net (to foreign countries (-))	-4,116	-828	-970	na	-1,086	-1,397	-872	na	-1,102	-285	-287	na	-224	na	-36	-3	-9	-34	-4	-8
29	Excluding military transfers	-2,610	-686	-670	-2,110	-638	-732	-667	-702	-470	-77	-723	-428	-219	-169	-35	-3	-9	-34	-4	-8
30	Private remittances	-491	-117	-143	-648	-120	-141	-122	-145	-148	-84	-42	-146	-58	-47	-27	-7	-8	-26	-4	-7
31	Government																				
32	Military grants of goods and services	-1,530	-216	-305	na	-447	-673	-715	na	-120	-106	-143	na	-114	na						
33	Other grants	-1,903	-494	-486	-1,907	-440	-545	-602	-400	-206	-30	-40	-143	-30	-6	-1	-1	-7	-2	-1	-1
34	Pensions and other transfers	-246	-67	-51	-304	-09	-09	-09	-09	-130	-27	-31	-129	-30	-23	-2	-1	-3	-1	-1	-1
35	U.S. capital, net (increase in U.S. assets (-))	-4,368	-634	-1,573	na	-1,732	-2,234	-718	-1,803	-217	-622	-44	-1,412	-100	-278	-42	-6	-6	-87	-5	-14
36	Private, net	-3,273	-821	-1,033	-1,862	-974	-1,663	-280	-1,176	-1,298	-249	-292	-1,294	-161	-418	3	-4	6	-28	2	-16
37	Direct investments, net	-1,367	-324	-336	-1,700	-601	-678	-104	-646	-808	-211	-166	-300	-66	-168						
38	New issues of foreign securities	-1,079	-123	-401	-1,204	-600	-618	-184	-86	-105	-16	-7	-272	-10	-34						
39	Redemptions	170	58	34	120	31	32	24	43	17	5	4	18	3	5						
40	Transactions in outstanding foreign securities	-50	-15	49	43	-43	-61	66	09			38	3	3	00						
41	Other long-term, net	-248	-34	-38	-640	-11	-124	-119	-286	-88	-6	-24	-488	-82	-243	2	-2	1	-17	2	-11
42	Short-term, net	-607	-79	-270	-642	-61	-531	-127	-219	-180	-77	-109	-68	-1	-15	1	-2	5	-0	(*)	-4
43	Government, net	-1,096	-25	-270	-1,481	-462	-710	-89	-407	808	429	294	182	234	48	-48	-2	2	-31	3	1
44	Long-term capital	-2,158	-160	-900	-2,184	-563	-630	-438	-769	-288	-59	-60	-304	-48	-79	-2	(*)	(*)	(*)	(*)	(*)
45	Repayments on U.S. Government loans, scheduled	017	110	213	040	128	181	168	229	232	42	111	200	06	89	13	2	(*)	14	8	12
46	Repayments and refunds, nonscheduled	000	421	142	326	25	31	241	25	606	471	143	277	233	4						
47	Foreign currency holdings and short-term claims, net (increase (-))	-246	-75	29	-441	-69	-261	-32	-19	00	-29	64		31	-09	-4	(*)	(*)	-18	-5	(*)
48	Foreign capital (lines 44-46), net (increase in U.S. liabilities (+))	1,820	162	806	802	73	237	146	313	778	125	380	686	164	223	(*)	(*)	(*)	(*)	(*)	(*)
49	Direct investments in the United States	132	0	8	68	-18	30	40	12	62	10	-8	111	68	11	(*)	(*)	(*)	(*)	(*)	(*)
50	Other long-term investments	139	-70	12	301	0	167	56	69	102	-38	-16	100	35	51	(*)	(*)	(*)	(*)	(*)	(*)
51	U.S. private short-term commercial and foreign liabilities	-110	13	-55	5	-19	85	24	-04	-112	-1	-43	40	29	-43	(*)	(*)	(*)	(*)	(*)	(*)
52	U.S. Government liabilities of short-term interest-bearing securities	014	100	289	453	37	-19	139	296	478	148	185	348	115	206	(*)	(*)	(*)	(*)	(*)	(*)
53	U.S. Government nonmarketable medium-term nonconvertible securities	264		251	-48	69	-10	-95	-1	251		251	-40	-05	-1				(*)		
54	U.S. Government nonmarketable medium-term convertible securities				702	258	150	178	25				577	175	26						
55	Increase in short-term official and banking liabilities and in foreign holdings of marketable U.S. Government bonds and notes (decrease (-))	002	-128	309	1,680	378	018	167	156	-717	-662	-04	661	69	34	1	(*)	4	11	-4	6
56	Increase (-) in monetary reserve assets, including gold, convertible currencies, and IMF position	1,542	661	389	378	32	124	227	-5	1,127	680	183	287	120	-88						
57	Reduction in monetary reserve assets and increase in liquid liabilities including U.S. Government nonmarketable medium-term convertible securities (lines 53-55)	2,180	693	698	2,058	706	1,194	689	176	410	-163	110	1,525	368	-9	1	(*)	4	11	-4	6
58	Excluding increase in U.S. Government nonmarketable medium-term convertible securities (lines 53 and 55)	2,186	683	608	1,088	382	1,842	414	186	410	-163	119	946	233	-34	1	(*)	4	11	-4	6
59	Errors and omissions and transfers of funds between foreign areas (receipts by foreign areas (-)), net	-1,025	-389	-743	-496	15	141	-306	-345	-1,456	-184	-860	-1,818	-328	-313	9	13	-6	-50		-31
60	Memorandum items:																				
61	Increase in reported total foreign gold reserves and liquid dollar holdings	2,614	001	877	3,523	840	1,350	740	561	408	-234	266	2,662	442	339	1	(*)	4	17	-4	6
62	Through estimated net receipts from, or payments (-) to, the United States	2,128	001	080	2,591	667	1,178	674	162	-1,048	-292	-781	-358	-140	-222	10	13	-2	-10	-4	-23
63	Through other transactions	380	-20	197	932	173	172	175	492	1,530	-47	090	2,342	682	664	-9	-13	6	30	0	31

* Revised. * Preliminary. na Not available. (*) Less than \$500,000.
1. Transactions with shipping companies operating under the flag of the Bahamas, Honduras, Liberia and Panama are included in "miscellaneous."
2. Changes in reported total gold reserves of foreign banks and governments (including

international organizations but excluding the countries of the Soviet bloc), net of convertible currencies held by U.S. monetary authorities, plus liquid claims on the United States plus net changes in their IMF position through U.S. dollar transactions.
3. For "All Areas" equals balance (with reverse sign) of line 28 (less net sales of gold by

Annual, Third and Fourth Quarters, 1962 and 1963

in dollars

Canada					Latin American republics					Japan					All other countries ¹					International institutions and unaffiliated ¹					Line
1962			1963			1962			1963			1962			1963			1962			1963				
Year	III	IV	Year	III	IV	Year	III	IV	Year	III	IV	Year	III	IV	Year	III	IV	Year	III	IV	Year	III	IV		
5,388	1,287	1,388	5,649	1,388	1,535	5,283	1,287	1,334	na	1,275	na	1,869	425	473	2,214	539	628	7,648	1,741	1,065	na	1,887	na		
4,338	1,387	1,388	5,649	1,388	1,535	5,132	1,274	1,317	5,238	1,269	1,371	1,859	425	473	2,214	539	629	6,716	1,644	1,041	1,405	1,768	3,179		
3,889	908	962	4,090	883	1,105	3,291	800	817	3,222	771	840	1,507	337	383	1,798	446	510	4,358	1,131	1,102	5,018	1,215	1,435		
107	20	28	102	28	25	235	50	61	277	70	74	96	21	23	108	29	28	281	73	73	324	91	83		
430	124	80	369	124	67	307	88	70	347	94	80	13	4	3	20	6	8	97	27	11	92	39	22		
175	45	45	173	44	47	287	77	72	208	70	70	94	23	25	97	24	25	256	63	74	277	67	75		
3	1	(*)	2	(*)	1	30	10	10	45	11	12	0	3	2	2	1	2	81	21	23	94	23	28		
20	6	4	18	3	4	18	3	6	17	1	2	24	4	4	24	10	10	42	13	13	44	10	13		
470	53	173	477	89	189	762	171	212	787	187	208	20	7	7	22	7	8	1,224	243	430	1,317	271	460		
280	70	73	313	79	87	135	35	34	140	30	38	19	31	107	20	30	30	70	19	21	83	21	23		
(*)	(*)	(*)	1,153	1,381	1,330	4,387	1,038	1,109	4,545	1,147	1,171	1,880	516	488	2,068	564	633	4,481	1,129	1,141	4,723	1,229	1,196		
3,445	881	896	3,681	881	889	3,469	788	874	3,431	871	923	1,388	382	380	1,407	413	263	3,187	790	810	3,410	885	892		
102	28	27	104	20	25	140	38	42	146	38	33	70	18	10	77	20	17	120	45	46	181	40	34		
402	274	301	513	280	86	477	138	116	540	148	128	50	13	15	53	14	16	364	67	65	378	60	71		
40	14	12	57	15	13	110	34	29	102	30	28	4	1	1	4	1	1	10	2	3	11	3	3		
4	1	1	1	1	2	23	18	20	81	31	25	7	2	2	11	2	3	124	30	33	140	38	33		
304	75	74	278	64	59	70	20	19	82	23	22	370	94	97	370	90	88	945	173	170	908	170	168		
178	42	48	191	46	51	31	7	8	22	13	15	10	2	2	31	8	8	30	9	10	42	10	12		
33	10	12	57	15	14	9	2	2	11	3	15	4	5	5	24	6	7	10	6	4	16	4	6		
777	-37	273	933	-31	305	876	240	226	na	131	na	-31	-91	-15	148	5	20	3,067	613	844	na	628	na		
777	-37	273	933	-31	305	795	235	208	640	122	200	-21	-91	-15	145	5	20	2,235	515	700	2,681	536	359		
-33	-7	-7	-29	-7	-7	-352	-77	-26	na	-37	na	-38	-7	-2	-28	-3	-3	-2,478	-485	-546	na	-511	na		
-33	-7	-7	-29	-7	-7	-272	-64	-73	-559	-89	-97	-38	-7	-2	-28	-3	-3	-1,647	-388	-382	-1,582	-469	-393		
-1	-1	-6	-1	-1	-1	-78	-10	-28	-104	-18	-18	-22	-5	-0	-20	-6	-6	-216	-64	-64	-244	-80	-84		
-23	-6	-6	-29	-6	-6	-81	-18	-17	-104	-18	-18	-22	-5	-0	-20	-6	-6	-832	-97	-144	na	-82	na		
-23	-6	-6	-29	-6	-6	-170	-44	-46	-205	-60	-74	-3	-1	-1	-1	-1	-1	-1,350	-820	-323	-1,308	-341	-306		
-23	-6	-6	-29	-6	-6	-19	-4	-4	-21	-4	-5	-0	-1	-2	-7	-2	-2	-170	-18	-18	-90	-10	-21		
-23	-6	-6	-29	-6	-6	-727	-129	-236	-531	-101	-145	-812	-73	-141	-698	-93	-384	-1,446	-236	-157	-1,943	-251	-104		
-23	-6	-6	-29	-6	-6	-277	-104	-123	-184	-66	-123	-615	-83	-119	-633	-97	-387	-1,077	-37	-163	-644	13	-144		
-23	-6	-6	-29	-6	-6	-32	18	-23	-78	60	-124	-33	-4	-20	-69	-17	-22	-348	-42	-117	-621	-40	-228		
-23	-6	-6	-29	-6	-6	-102	(*)	-63	-23	-23	(*)	-100	-15	-25	-105	-83	-6	-137	-26	-62	-90	-11	-228		
90	38	25	100	15	36	5	3	(*)	1	(*)	2	4	2	1	1	1	1	31	4	4	18	3	0		
73	3	37	90	23	29	-13	-3	-11	11	8	5	-23	-11	-4	-20	-3	-4	1	-9	0	8	27	-2		
-36	-3	-8	17	-20	-11	-39	-41	103	44	18	33	-103	-33	-30	-137	-39	-30	14	60	0	30	7	15		
-3	-108	93	47	131	105	-111	33	-116	-97	-37	-37	-210	-38	-29	-223	-16	-206	32	56	-10	-102	34	-213		
	3	1	2	4	4	-399	-123	-99	-377	-81	-25	-86	-17	-22	-84	4	3	-1,018	-273	-299	-1,208	-277	-350		
						-653	-118	-143	-563	-36	-140	-98	-24	-20	-93	-9	-3	-1,704	-280	-300	-1,157	-260	-207		
						179	36	67	210	34	103	29	3	7	61	12	0	152	31	49	144	40	30		
						-50	-28	2	-73	-3	(*)	3	3	(*)	-23	1	(*)	-157	-18	-37	-300	-32	-130		
116	4	30	21	-2	23	105	29	47	15	14	-16	-86	-12	-12	-42	-15	9	107	16	74	33	5	41		
43	-13	7	18	-4	8	6		3	-20	-12	-2	34	6	9	-25	3	-3	-3	-2	-3	4	1	(*)		
50	12	23	18	(*)	8	-21	-2	0	46	11	-1	1	(*)	1	(*)	3	-3	30	(*)	5	17	4	5		
10	9	8	-10	3	8	10	10	4	-27	3	-10	-15	8	-15	-27	-13	-3	23	8	-14	(*)	1	(*)		
-5	-4	1	-1	-1	1	104	21	40	26	16	-7	(*)	1	-1	-0	-2	-4	1	-7	9	39	12	23		
				(*)					(*)																
522	590	-8	-98	-16	-120	124	-110	182	000	147	129	305	134	138	200	70	00	42	-13	20	190	-00	123		
-133	3	244	(*)	-17	37	-178	-9	-64	-12	14	3							90	41	9	24	25	5		
329	599	311	57	-33	-112	-41	-126	08	827	163	132	685	114	126	259	70	44	132	20	25	238	-71	128		
320	589	211	-46	-33	-112	-41	-126	08	827	163	132	585	134	138	269	78	69	132	20	25	226	-71	128		
-563	-343	-215	28	37	-293	158	44	-48	-423	-513	-87	118	28	37	405	32	237	368	196	122	934	283	-28		
361	619	260	166	-13	-70	-114	-169	80	618	158	173	505	134	138	260	70	00	420	130	64	378	-23	120		
-330	201	20	96	4	-105	00	-81	50	264	50	05	623	150	175	834	106	300	000	134	151	830	131	300		
517	418	234	80	-17	335	-213	-385	30	444	108	110	-118	-28	-37	-806	-32	-237	-480	-31	-37	-488	-156	20		

domestic sources to (+) or purchases from (-) the monetary gold stock of the United States) plus lines 29, 30, 43, and 45. Domestic sales to (+) or purchases from (-) the monetary gold stocks were in millions of dollars: 1962 III, -12; IV, -18; 1963 I, -15; II, -16; III, -15; IV, -29.

4. Line I minus line II for all areas represents gold obtained by foreign central banks and governments outside the United States.

Source: U.S. Department of Commerce, Office of Business Economics.

additional investments averaging \$2 billion per year in 1962 and 1963.

Private capital movements—General developments

The outflow of U.S. capital, which had started to rise in the last quarter of 1962, continued that increase in the first half of 1963, reaching a total of about \$2,660 million in that period. The rise was largely in new issues of foreign securities, but direct investments were also up and so were long- and short-term bank loans, as well as investments of corporate funds in foreign, particularly Canadian, banks. To stem the outflow of capital, the President proposed in the middle of July the enactment of an interest equalization tax on purchases of foreign securities to be effective generally as of the following day for purchases of outstanding securities and for purchases of new issues which were arranged after that date. In addition the ceiling on interest rates on time deposits was raised, and the discount rate was increased; these measures made it possible for the rates on short-term Treasury bills and on private negotiable obligations with comparable liquidity to go up.

The capital outflow dropped to about \$1,420 million during the second half of the year—although this period still included the sales of some new issues which had been arranged for earlier. The decline was mainly in the third quarter, however. In the fourth quarter capital outflows—after allowance for seasonal changes—increased again to about \$950 million, which was about as high as the quarterly average during the years 1960 to 1962. About \$390 million of the \$470 million rise between the two quarters was in direct investments.

For the year as a whole the net outflow of U.S. private capital was about \$4,080 million, \$810 million more than in 1962 but still less than in the previous peak year of 1961.

Inflows of foreign private funds for investment in other than liquid assets were about \$240 million up from 1962, as a result of increased purchases of U.S. securities. Inflows of foreign capital for direct investments in the

United States were somewhat smaller than in 1962.

Both U.S. investments in foreign securities (new issues) and foreign purchases of U.S. securities were increased in the second quarter by about \$100 million as a result of transactions closely linked to each other.

The debit balance for the combination of U.S. capital outflows and foreign capital inflows was about \$3,690 million, or \$670 million higher than in 1962.

Major types of capital transactions

U.S. direct investments abroad for the year as a whole were about \$1,800 million, as compared with \$1,560 million in 1962. The outflow was relatively large in the first half of the year. In the third quarter the outflow dropped sharply, but that decline was nearly compensated by a rise in the fourth.

The large shift in direct investment capital outflows from the third to the fourth quarter even after seasonal adjustment reflected a change from a short-term cash inflow from continental Europe in the third quarter to an outflow in the fourth. Another factor was a large cash outflow to Venezuela, considerably higher than in the fourth quarter of 1962. The change may be associated with tax payments and seems to be reflected in official dollar balances held by that country.

Direct investments in the fourth quarter were also raised by a higher rate of permanent investment in manufacturing and petroleum companies, including about \$40 million spent to acquire existing European companies.

Although direct investment capital flows varied sharply between quarters, the overall rise in 1963 would correspond to the projected increase in plant and equipment expenditures of the foreign enterprises, as reported by the U.S. parent companies early in the year.¹

Net purchases of foreign securities, both newly issued and outstanding (excluding the special transaction in the second quarter mentioned above) were not much higher in 1963 than in 1962. During 1963, they declined, however,

from about \$900 million in the first half (which was nearly twice the 1962 rate) to about \$100 million in the second. Purchases of newly issued securities dropped—after seasonal adjustment—from a quarterly average of \$430 million in the first half of the year to \$218 million in the third quarter and \$115 million in the fourth.

Transactions in outstanding securities shifted from net purchases of about \$110 million in the first half of 1963 to net liquidations of \$150 million in the second half. The net liquidation of foreign equity securities in the fourth quarter was about \$100 million, with continued net selling of Canadian stocks and sizeable selling of European stocks in contrast to large net purchases through August. The shift from net purchases to net sales probably was stimulated by the relatively buoyant situation of the U.S. stock market, as well as by the interest equalization tax proposal.

There was also a substantial shift from 1962 to 1963 in investments by nonfinancial corporations of funds in foreign time deposits and other short-term receivables. In 1962 their holdings of such assets increased by \$266 million while in 1963 they were reduced by \$70 million (table 3). New investments in such assets were still large during the first half of 1963, but the movement was reversed sharply during the second half when over \$200 million of such assets were liquidated. Both the outflow in 1962 and early 1963 and the subsequent inflow affected mainly U.S. dollar assets held in Canada. This change in movements during 1963, which exceeded the usual seasonal shifts of funds, may be related to the higher earning opportunities for relatively liquid investments in the United States following the rise in interest payments on such assets in the middle of the year. Longer term corporate loans were also reduced, particularly in the fourth quarter, when more than \$150 million of credits appeared to have been shifted to U.S. commercial banks.

The largest rise in capital outflows in 1963 was in bank credits, both in medium-term credits with a contractual maturity of over one year and in short-

¹ Survey of Current Business, October 1963, p. 15.

term loans some of which are made on a revolving basis and de facto are frequently extended for periods exceeding 1 year. The total for the year (without the apparent shift of outstanding loans from commercial concerns) was about \$1,280 million, of which about \$580 million were medium-term loans. In 1962 total bank credits were less than \$400 million, including not quite \$120 million in medium-term credits.

The rise in medium-term bank credits started in the second quarter of the year (before the interest rate equalization tax was proposed) but it accelerated during the second half even after taking account of the more than \$150 million apparently shifted from commercial concerns. The short-term bank credits followed the same pattern (particularly if a very short-term loan to Europe of about \$100 million extended at the end of June and repaid early in July is disregarded). With these adjustments and allowance for seasonal variations, bank credits in the first half of 1963 were about \$500 million and in the second half about \$780 million.

The net increase in medium-term bank loans for the fourth quarter was \$459 million (\$415 million after seasonal adjustment), nearly all in December, but this included the credits apparently taken over from commercial firms. The loans were extended to several European countries, as well as to a number of Latin American countries, and Japan.

Short-term credits by U.S. banks shifted abruptly from a net liquidation of about \$100 million in the third quarter to net extensions of \$490 million in the fourth. A major part of the shift was seasonal and it also resulted from large credits provided to Japan. In the fourth quarter these credits were \$275 million, and followed over \$100 million in credits extended during the second quarter (see table 3). Other credits were mainly to Latin America and other less developed countries. Some increase occurred also in credits to Canada (offsetting in part the return flow of corporate funds), but new lending to the major financial centers in Europe continued to be relatively small.

Summary

The improvement in the balance of payments during 1963 reflects in part favorable changes in the more basic economic relationships between this country and the rest of the world, measures taken by the Government, and some developments which may have only temporary significance.

The change in these relationships seems to have been reflected mainly in merchandise trade, and perhaps some of the capital movements. It seems to be based on the rapid rise in living standards in most of the other industrialized countries and some improvement in investment opportunities here. The rise in exports seems to have been somewhat more than what could be expected from past experience. The additional exports—particularly to the other industrialized countries—appear to have been in agricultural and to a lesser extent in consumer goods. At the same time our other exports, particularly in industrial materials and machinery, rose as foreign business activity expanded.

In addition to these developments we had the benefit of exceptionally high exports of agricultural goods which may be attributed to strictly temporary factors.

Imports, while also expanding, moved up somewhat slower than in earlier periods of rising business activity, but the lesser rise was mainly in imports from the less developed countries, some of whom spend a relatively large part of their exports earnings in the United States. The longer run balance of payments effect of the relatively slower rise in imports, therefore, may not be as large as the relatively slow import rise itself may suggest.

Government measures to reduce expenditures and increase receipts abroad resulted in a drop in military expenditures and an increase in foreign orders for military equipment which should be followed by an increase in shipments.

The large change during the year was, of course, in capital outflows, particularly in net purchases of foreign securities. During the first half of the year these transactions included large

amounts of Canadian issues which were not expected to continue at that rate. There were also indications, however, that new issues of other countries would continue to rise. The proposed interest equalization tax provided a barrier to such new issues and also resulted in a change from net purchases to net sales of other foreign securities. This change, however, may also have reflected improved investment opportunities in domestic securities. An important shift also occurred in the flow of corporate funds—not related to direct investments—from net acquisitions of foreign assets in 1962 and the first half of 1963 to relatively large liquidations during the latter part of the year. This shift may reflect the rise in interest rate on relatively liquid assets in the United States.

Even with these improvements, the outflow of U.S. capital—which basically reflects the larger supplies relative to demands here than abroad—remained large, particularly through direct investments and bank loans, which increased substantially during the year.

The renewed rise of capital outflows in the fourth quarter appears to reflect deeper lying economic relationships as well as temporary diversions from longer-run trends. The exceptionally sharp rise in direct investments may be in the latter category, and this may also apply to part of the rise in bank loans. On the other side, however, was the exceptionally large return of funds from Canadian banks. This would suggest that omitting temporary fluctuations capital movements in the fourth quarter may have been somewhat but not much below the actual figures, but perhaps by as much as one-third under the rate in the first half of the year.

Abstracting from the temporary developments, and from the "special" Government transactions that have been reviewed, it would seem, that the balance during the latter part of 1963 was improved and probably broke out of the range of adverse balances between \$3 to \$4.5 billion experienced between 1958 and the first half of 1963. This improvement, while significant, was not quite as large, however, as the actual transactions may suggest.